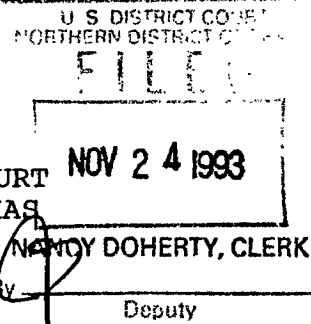


ORIGINAL

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION



KPR, INC. d/b/a Rosani Food

§

VS.

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ACTION NO. 4:93-CV-243-Y

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C&F PACKING COMPANY, INC.

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§

MEMORANDUM OPINION DENYING MOTION TO TRANSFER
AND ALTERNATIVE MOTION TO STAY AND GRANTING ALTERNATIVE
MOTION TO DISMISS PLAINTIFF'S CLAIMS FOR DECLARATORY RELIEF

Pending before the Court is the motion of C&F Packing Company, Inc. ("C&F") to transfer or, in the alternative, to stay or dismiss the complaint of plaintiff KPR, Inc. d/b/a Rosani Food ("KPR"), which was filed in the above-styled and numbered cause on May 4, 1993. After careful consideration of the motion, KPR's response thereto, KPR's affidavits and supplemental affidavit in support of its response, C&F's reply to KPR's response, the letters received by the Court pertaining to the motion, C&F's clarified surresponse to KPR's July 26, 1993 letter, and the applicable law, the Court finds that the motion to transfer and alternative motion to stay should be denied, and that the alternative motion to dismiss plaintiff KPR's claims for declaratory relief should be granted. This cause shall proceed, however, as to the claims transferred to this Court by the United States District Court for the Northern District of Illinois, and the previously issued stay of discovery pending ruling on C&F's May 4, 1993 motion shall be lifted.

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I. Facts

Plaintiff KPR is a Texas corporation with its principal place of business in Fort Worth, Texas. Defendant C&F is an Illinois corporation with its principal place of business in Elk Grove, Illinois. KPR and C&F are both in the business of manufacturing and selling Italian sausage topping for pizza. C&F also manufactures equipment by which the sausage product can be made and has obtained patents for the equipment and for a method of processing the sausage product.

On December 18, 1990, KPR entered into three separate agreements with C&F whereby KPR agreed to use C&F's equipment in making sausage product under C&F's patents. The three agreements entered into by the parties were a license agreement, an equipment lease agreement, and a consulting agreement. The license agreement grants KPR a license to use C&F's patented process and apparatus to make the sausage product. The license agreement further requires KPR to pay a royalty based on the number of pounds of sausage manufactured or sold by KPR using the licensed process or apparatus. The license agreement further provides for automatic termination thereof if KPR remains in default of any of the agreement's terms for more than thirty days after C&F gives KPR written notice specifying such default. The equipment lease agreement provides for a term of one year with automatic renewal for an additional one year period unless C&F terminates the agreement by giving KPR thirty days' written notice of termination. The consulting agreement requires C&F to pay KPR the sum of \$5,000

per week as compensation for KPR's consulting services. The initial term of the consulting agreement was November 1, 1990, through October 31, 1992, with automatic renewal every year thereafter for an additional one year term unless either party notifies the other in writing at least sixty days in advance of the anniversary date of the execution of the agreement of its intent not to renew.

Both KPR and C&F sold their sausage product to Pizza Hut, Inc. ("Pizza Hut"). In the early part of 1993, Pizza Hut terminated its relationship with C&F. On March 17, 1993, allegedly as a result of Pizza Hut's actions, C&F sued Pizza Hut for aiding and abetting patent infringement by Iowa Beef Packers, Inc. ("IBP"), another supplier to Pizza Hut, and sued IBP for patent infringement. In that suit, which was filed in the United States District Court for the Northern District of Illinois, C&F claimed that Pizza Hut was also aiding and abetting other suppliers in infringing C&F's patents.

On April 7, 1993, C&F filed suit against another supplier to Pizza Hut, H&M Foods Systems, Company ("H&M"), in the United States District Court for the Northern District of Illinois, alleging that H&M had breached a license agreement it had with C&F, which agreement granted H&M a license under one of the same patents at issue in this suit. On July 6, 1993, Judge Williams, who was presiding over C&F's Illinois suit against H&M, issued an order transferring that case to the Fort Worth Division of the Northern District of Texas. C&F sought appellate review of Judge Williams's

order, however, and that appeal apparently remains pending as of this date. As a result, the ordered transfer of the H&M Illinois suit has not yet been effected.

Meanwhile, on March 14, 1993, which was a few days before C&F filed suit against Pizza Hut, C&F informed KPR by letter of its intent to terminate the license agreement unless KPR paid all royalties due under the agreement with interest within thirty days. Although the license and consulting agreements executed by KPR and C&F provided for the payment of royalties and consulting fees, none of the fees had been paid. C&F's letter also indicated that it had no further interest in receiving any consulting services from KPR and was terminating the consulting agreement. The March 14, 1993 letter gave KPR until April 15, 1993, to respond and cure its alleged default. Nevertheless, on April 5, 1993, C&F sent another letter to KPR indicating therein that because KPR had failed to respond to the March 14, 1993 letter, C&F was terminating the license and equipment agreement immediately.

On April 15, 1993, C&F filed suit against KPR in the United States District Court for the Northern District of Illinois, where the other suits against Pizza Hut suppliers and relating to C&F's patents were pending. Two days prior to that, however, KPR initiated this suit for declaratory judgment against C&F, requesting that this Court declare that KPR is not in default under any of the three agreements with C&F, that it has not infringed any of C&F's patents, and that C&F's patents are invalid. C&F responded to KPR's complaint in this cause by filing the pending

motion to transfer, stay, or dismiss and requesting therein that this cause be transferred to the Illinois court where C&F's suit against KPR was pending, or alternatively that this Court dismiss or stay KPR's claims for declaratory relief in favor of the Illinois suit. Similarly, KPR responded to the complaint filed by C&F in Illinois by seeking a transfer of that suit to this Court. On July 22, 1993, Judge Plunkett, the judge presiding over C&F's claims against KPR in Illinois, found that, pursuant to 28 U.S.C. § 1404(a), the interests of justice required that C&F's claims be transferred to this Court. The Illinois suit was therefore transferred to this Court and subsequently consolidated with this case.

II. Analysis

A. Existence of Jurisdiction

Initially, the Court finds that it has jurisdiction over KPR's claims for declaratory relief. As provided in the Declaratory Judgment Act, if an "actual controversy" is present, this Court "may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought." 28 U.S.C.A. § 2201(a) (West Supp. 1993). The Act's only jurisdictional requirement--that an actual controversy exist--is of constitutional dimension, for "to proceed in the absence of a case or controversy would involve the court in rendering a forbidden advisory opinion." *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 239-41 (1937). In determining whether an

actual controversy exists such that the exercise of jurisdiction under the Act is proper, a court must evaluate "whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941). In the context of a patent dispute, the following test is instructive:

First, the defendant's conduct must have created on the part of the plaintiff a reasonable apprehension that the defendant will initiate suit if the plaintiff continues the allegedly infringing activity. Second, the plaintiff must actually have either produced the device or have prepared to produce the device.

Goodyear Tire & Rubber Co. v. Releasomers, Inc., 824 F.2d 953, 955 (Fed. Cir. 1987); see also *Genentech, Inc. v. Eli Lilly and Co.*, 998 F.2d 931, 936-37 (Fed. Cir. 1993).

In its complaint, KPR indicates that C&F's course of action caused it to have the requisite reasonable apprehension that C&F would initiate an infringement suit against KPR. The Court agrees, finding that C&F's March 14th and April 5th letters, coupled with the fact that C&F had already filed suit against two of Pizza Hut's other suppliers, were sufficient to lead KPR to believe that C&F would also be filing suit against it if it continued to produce and supply Pizza Hut with its sausage product. Furthermore, there appears to be no question that KPR used C&F's patented process and apparatus in making its sausage product. Consequently, the Court finds that it has jurisdiction over KPR's claims for declaratory

relief.

B. Exercise of Jurisdiction

The existence of jurisdiction is not the end of the inquiry, however. The Declaratory Judgment Act grants discretionary jurisdiction, which a court may decline under appropriate circumstances. 28 U.S.C.A. § 2201 (providing that a court may exercise jurisdiction); see also *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 735 n.6 (Fed. Cir. 1988) (noting that "[t]here is no absolute right to a declaratory judgment[,] and "when there is a clear controversy and thus jurisdiction, a district court's decision on whether to exercise that jurisdiction is discretionary"); *Mission Ins. Co. v. Puritan Fashions Corp.*, 706 F.2d 599, 601 (5th Cir. 1983) (holding that "it is a matter within the district court's sound discretion whether to decide a declaratory judgment action"); *Hollis v. Itawamba County Loans*, 657 F.2d 746, 750 (5th Cir. 1981) (noting that, although the exercise of jurisdiction under the Act is discretionary, "district courts may not decline on the basis of whim or personal disinclination"). A court's decision not to exercise its discretionary jurisdiction nevertheless "must have a basis in sound reason." *Genentech*, 998 F.2d at 936. The Court must therefore determine whether the exercise of jurisdiction would be consonant with the purposes of the Act.

As noted by the Federal Circuit, the Act was enacted to provide persons threatened with litigation the means for forcing

those making the threats to take action. See *Arrowhead*, 846 F.2d at 735. The Act therefore provided KPR with a means for achieving an expedient resolution to what it considered threats of suit by C&F and the possibility of indefinite liability. In this instance, however, defendant C&F followed through on its threats in a timely fashion by filing suit in the Northern District of Illinois on the day following the expiration of the time period allowed for cure in C&F's March 14, 1993 letter and required by the terms of the license agreement. Thus, the possibility of plaintiff KPR incurring "a growing potential liability" was alleviated by C&F's actions, and the need for declaratory relief to protect KPR's interest dissipated with the filing of C&F's suit in Illinois.

KPR argues, however, that the "first-to-file" rule requires that the declaratory judgment suit filed in this Court proceed since it was filed prior to the filing of C&F's Illinois action. The "first-to-file" rule provides that, when two suits are filed in different forums regarding the same matter, the first suit should generally take priority.¹ See *Kahn v. General Motors Corp.*, 889

¹In response to KPR's "first-to-file" argument, C&F cites *Tempco Elec. Heater Corp. v. Omega Eng'g, Inc.*, 819 F.2d 746 (7th Cir. 1987), which held that a later-filed trademark infringement suit should have priority over an action for declaratory judgment of noninfringement. As recently held by the Federal Circuit Court of Appeals, however, to which an appeal from this Court's ruling lies,

[w]e decline to apply *Tempco Electric* to patent cases. Such a rule would automatically grant the patentee the choice of forum, whether the patentee had sought--or sought to avoid--judicial resolution of the controversy. This shift of relationship between litigants is contrary to the purpose of the Declaratory

F.2d 1078, 1081 (Fed. Cir. 1989); *Patton Elec. Co., Inc. v. Rampart Air, Inc.*, 777 F.Supp. 704, 708 (N.D. Ill. 1990); *909 Corp. v. Bolingbrook Police Pension Fund*, 741 F.Supp. 1290, 1292 (S.D.Tex. 1990). Nevertheless, if the first suit is filed as a means of forum-shopping, it should be dismissed:

Importantly, we have declined to follow the first-to-file rule where, as here, the first-filed action is initiated in an apparent attempt to pre-empt anticipated litigation and deprive a party of its choice of forum. For example, in *Mission Ins. Co. v. Puritan Fashions Corp.*, 706 F.2d 599, 602 n.3 (5th Cir. 1983), noting that "[a]nticipatory suits are disfavored because they are an aspect of forum-shopping," we affirmed the dismissal of a declaratory judgment suit filed approximately three weeks before the institution of a suit in another state. There, as here, the first suit was filed while, at least ostensibly, the parties were working together to determine their respective positions regarding the dispute at hand. The principle of avoiding anticipatory lawsuits is especially strong where, as here, the first-filed suit is one for declaratory judgment. "[A] proper factor to consider in dismissing a declaratory judgment is whether the suit was filed in anticipation of another and therefore was being used for the purpose of forum-shopping."

Patton, 777 F. Supp. at 708 (quoting *Rampart Air, Inc. v. Patton Electric, Inc.*, No. 91-2312, slip op. at 4-5 (5th Cir. Aug. 14,

Judgment Act to enable a person caught in controversy to obtain resolution of the dispute, instead of being forced to await the initiative of the antagonist

We prefer to apply in patent cases the general rule whereby the forum of the first-filed case is favored, unless considerations of judicial and litigant economy, and the just and effective disposition of disputes, require otherwise.

Genentech, 998 F.2d at 937. Nevertheless, the Federal Circuit recognized and apparently retained the "forum shopping" exception to the "first-to-file" rule. *Id.* at 938; see also *K&F Mfg. Co., Inc. v. Western Litho Plate & Supply Co.*, No. 3:93-CV-300RM, 1993 WL 375259, at *2 (N.D.Ind. Aug. 17, 1993).

1991) [942 F.2d 786 (table)]]; see also Kahn, 889 F.2d at 1081; 909 Corp, 741 F.Supp. 1290, 1292-93.

The Court finds that KPR engaged in forum-shopping by filing its declaratory judgment action with this Court. As previously indicated, C&F's March 14, 1993 letter gave KPR thirty days to cure the alleged defects in KPR's performance under the license agreement, and a thirty-day notice of intent to terminate the agreement was required by the express terms thereof. Instead of waiting until the expiration of the thirty-day cure period, and without responding to C&F's letters, KPR filed suit in Texas one day before the period expired. Although the purpose of the Act is to alleviate the necessity of waiting indefinitely for a patent owner to file an infringement action, KPR should have at least waited until after the expiration of the thirty-day period required by the license agreement and set out in C&F's letter to see what action, if any, C&F would take. C&F should not be penalized in the race to the courthouse for attempting to abide by the termination provisions of the license agreement and seeking a resolution of the dispute prior to seeking court intervention.

Additionally, KPR admits that it knew of the suits filed by C&F against the other two Pizza Hut suppliers based upon the same patents and equipment. Indeed, KPR argues, which argument the Court accepts, that KPR's knowledge of the existence of those suits gave it the "reasonable apprehension" necessary to file its declaratory judgment action. The fact that C&F had recently filed infringement suits against other suppliers based upon the same

patents and equipment at issue in this case should also have been an indication to KPR that it would not be forced to wait indefinitely for C&F to file suit. Because KPR knew of the existence of those suits, and because KPR filed suit in the forum of its choice only one day before the expiration of the cure period, the Court finds that KPR's rush to file a declaratory judgment action against C&F in this forum constituted forum-shopping. As a result, the Court finds that KPR's declaratory judgment claims should be dismissed in favor of proceeding with C&F's Illinois-filed patent infringement claims.

C. Effect of Transfer of Patent Infringement Suit

Nevertheless, as noted above, the judge presiding over the Illinois action has already transferred that cause to this division pursuant to 28 U.S.C. § 1404(a), and those claims have been consolidated with the declaratory judgment claim pending before this Court. Thus, even though the Court is dismissing KPR's claim for declaratory relief, this cause will proceed in this Court as to C&F's patent infringement claims.

C&F argues in its August 12, 1993 clarified surresponse that, despite the transfer of the Illinois suit, this Court can nevertheless determine whether a retransfer to Illinois would be appropriate. In support of this argument, C&F contends that the "first-to-file" rule requires that the court of first filing determine which is the best forum to hear the dispute. See *West Gulf Maritime Ass'n v. ILA Deep Sea Local 24*, 751 F.2d 721, 728

(5th Cir. 1985); *Pacesetter Sys., Inc. v. Medtronic, Inc.*, 678 F.2d 93, 96 (9th Cir. 1982) (forum non conveniens); *Texas Instruments, Inc. v. Micron Semiconductor, Inc.*, 815 F.Supp. 994, 997 (E.D.Tex. 1993); *Igloo Prod. Corp. v. Mounties, Inc.*, 735 F. Supp. 214, 217 (S.D.Tex. 1990). Although C&F's argument may be correct, the Illinois court chose not to await this Court's ruling on the issue. Since the Illinois court has already engaged in the § 1404(a) analysis and effected the transfer, this Court is not convinced that it would be proper, and in any event is not inclined, to revisit the issue already decided by the transferor court. Indeed, the Fifth Circuit Court of Appeals has held that

[c]ertainly, the decision of a transferor court should not be reviewed again by the transferee court. *Starnes v. McGuire*, 512 F.2d 918, 924 (D.C.Cir. 1974) (en banc). Such an independent review would implicate those concerns which underlie the rule of repose and decisional order we term the law of the case. We have said: "If the motion to transfer is granted and the case is transferred to another district, the transferee-district should accept the ruling on the transfer as the law of the case and should not re-transfer 'except under the most impelling and unusual circumstances' or if the transfer order is 'manifestly erroneous'" *United States v. Koenig*, 290 F.2d 166, 173 n.11 (5th Cir. 1961), *aff'd*, 396 U.S. 121, 90 S.Ct. 396, 24 L.Ed.2d 305 (1962). Failure to abide the original transfer order contains the additional potential mischief of tossing cases back and forth to the detriment of an adjudication of the underlying merits of the case and respect due sister courts.

In Re Cragar Industries, Inc. 706 F.2d 503, 505 (5th Cir. 1983).² Nevertheless, the *Cragar* court noted that where an unforeseen later event frustrates the purposes of the transfer, the transferee court

²Since the propriety of a retransfer is a question of procedure that is not unique to patent law, regional circuit law applies. See *Genentech*, 998 F.2d at 937.

is not powerless to retransfer the case. *Id.* C&F has presented the Court with nothing to indicate, however, that the Illinois court's decision has in any way been frustrated by unforeseeable post-transfer events or that sufficiently unusual circumstances exist to warrant a retransfer to Illinois.

Moreover, the Court is not convinced that the Illinois court's decision to transfer was incorrect. Although the Court questions whether its docket is any less crowded than that of the transferor court,³ C&F has presented this Court with no evidence tending to show that this cause indeed could be more quickly resolved in Illinois, contrary to the Illinois court's findings. Additionally, congestion of the Illinois court's docket was not the only reason cited for the transfer. Judge Plunkett also found persuasive the fact that the essential proof would be found in Texas, since the issue is whether a company with its principal place of business in this division has infringed on C&F's patent. Consequently, this Court cannot find that the transfer order was "manifestly erroneous." For all of the foregoing reasons, the Court finds that the transferred claims should proceed in this Court.

³Indeed, this Court has been able to try but one civil case since December 1992 due to a consuming criminal docket, two cases from which involved multi-defendant drug conspiracy trials lasting approximately two months each. As a result, the civil trial docket is lamentably backlogged, and a trial of this cause is unlikely for at least one year or more.


III. Conclusion

The Court finds that it has jurisdiction over KPR's claims for declaratory relief, but declines to exercise that jurisdiction due to the foreseeable filing of the patent infringement suit in Illinois. Nevertheless, because the Illinois suit has been transferred to this Court, and because the Court does not find that the transfer order was manifestly erroneous, that unusual circumstances exist compelling re-transfer, or that the purpose of the transfer has been frustrated by unforeseen post-transfer events, this cause shall proceed as to those claims.

An order in accordance with this memorandum opinion shall issue this same day.

SO ORDERED.

SIGNED this 23rd day of November, 1993.



TERRY R. MEANS
UNITED STATES DISTRICT JUDGE